

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer
Marshall Johnson
Ken Nickolai
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Otter Tail
Corporation d/b/a Otter Tail Power
Company for Approval of an Electric Service
Agreement with Enbridge Energy, Limited
Partnership

ISSUE DATE: January 16, 2007

DOCKET NO. E-017/M-06-1332

ORDER APPROVING ELECTRIC SERVICE
AGREEMENT AND LARGE GENERAL
SERVICE RIDER, AS MODIFIED, AND
REQUIRING REPORTS

PROCEDURAL HISTORY

On September 30, 2006, Otter Tail Corporation d/b/a Otter Tail Power Company (Otter Tail, OTP, or the Company) filed a request for approval of an Electric Service Agreement (ESA) with Enbridge Energy, Limited Partnership (Enbridge) and revisions to its Large General Service Rider Tariff (LGS Rider).

On October 20, 2006, the Minnesota Department of Commerce (the Department) filed comments recommending approval with modifications and reporting requirements.

On November 17, 2006, OTP filed reply comments disputing some of the Department's recommended modifications and reporting requirements.

On December 11, 2006, the Department responded to OTP's reply comments.

The Commission met to consider this matter on December 21, 2006.

FINDINGS AND CONCLUSIONS

I. Otter Tail Power's Proposal

OTP requested that the Commission approve a new Electric Service Agreement (ESA or

Agreement) between OTP and Enbridge Energy, Limited Partnership (Enbridge or the Customer). The Agreement would replace the parties' current ESA, which has a termination date of December 31, 2006.

As with the current electric service agreement between OTP and Enbridge (Docket No. E-017/M-03-1570), Enbridge will purchase its full requirements of electric service for the seven crude-oil pumping stations in OTP's north/northwestern Minnesota service territory. The term of the proposed ESA was from January 1, 2007 to December 31, 2009 and continuing thereafter until cancelled by either party after providing a twelve-month written notice.

OTP also requested that the Commission approve a Revised LGS Rider. The proposed ESA relies on some of the revisions in the Revised LGS Rider.

II. The Department's Initial Recommendation

The Department recommended that the Commission 1) approve OTP's revision to the Large General Service Rider on an experimental basis for the three-year duration of the ESA between Otter Tail Power and Enbridge; 2) require OTP to file a monthly report detailing the amount of incremental energy purchased under the LGS Rider, the price of the energy purchased, and the price of the energy had System Marginal Energy Pricing been in effect; and 3) approve the Electric Service Agreement modified to include an added provision to the Released Capacity section allowing a revision if the Midwest Independent Transmission System Operator (MISO) develops a Demand Response program for end-use customers.

III. Otter Tail and the Department's Ultimate Recommendation

At the hearing, Otter Tail and the Department agreed on the disposition of this matter. They recommended that the Commission should approve the ESA and the revisions to the Large General Service Rider on a three-year basis with the following modifications and requirements:

1. The following language is to be added to Section 12 - Released Capacity in the ESA:

This section may be revised upon mutual agreement between Otter Tail and Enbridge if MISO or its successor develops Demand Response or other capacity purchase programs.

2. Otter Tail is to report, as part of its annual automatic adjustment filing, the amount of incremental energy purchased by the customer under the LGS Rider, the retail rate paid by the customer, and the retail rate of the energy had System Marginal Energy Pricing (SMEP) been used to determine the retail rate paid by the customer.
3. The Commission's Order is to state that the Commission may revise the LGS Rider if the results of its investigation of the Smart Metering Standard under the Federal Energy Policy Act of 2005 in E-999/CI-05-159 or information in Otter Tail rate cases or other relevant proceedings warrant such a change.

4. Otter Tail is to be required to make a compliance filing within 20 days of the date of the Order incorporating the additional language into the ESA and any other modifications that the Commission makes to the ESA and/or LGS Rider.

IV. Commission Analysis and Action

In general, the Commission finds that the new ESA and revised Large General Service Rider are reasonable and will approve them, with a few modifications and clarifications discussed below.

First, the Commission finds that the parties' proposed additional language is reasonable and will require that it be added to Section 12 of the ESA.

Second, the Commission agrees with the parties' ultimate joint recommendation that the new ESA and revised Large General Service Rider should be approved for a period of three years. The fixed three year period will ensure Commission review before these provisions are authorized beyond those three years.¹

Third, the principal change between the currently approved ESA and the proposed ESA is the change from pricing incremental energy in the LGS Rider on a System Marginal Energy Pricing (SMEP) basis to a Fixed Rate Energy Pricing (FREP) basis. This change would make the customer's decision on whether to consume incremental energy less sensitive to actual market prices. In light of the increased level and volatility of short-term electricity in the market, however, it is understandable that Enbridge² apparently prefers the certainty of prices under the fixed time-of-use rate alternative.

Therefore, while moving to fixed-rate pricing is reasonable and will be approved for the ESA in these circumstances, the Commission will impose, at the Department's request and as agreed to by OTP, certain reporting requirements. These reporting requirements will allow the Department to monitor the impact of the change from SMEP to FREP on Enbridge's electrical usage.

ORDER

1. The Commission hereby approves the Electric Service Agreement and the revisions to the Large General Service Rider on a three-year basis with the following modifications and requirements:

¹ The Commission may, of course, revise the LGS Rider on a going forward basis if the results of its investigation of the Smart Metering Standard under the Federal Energy Policy Act of 2005 in E-999/CI-05-159 or information in Otter Tail rate cases or other relevant proceedings warrant such a change.

² Enbridge is OTP's largest customer and the only customer currently on the rate option at issue in this docket.

- a. The following language shall be added to Section 12 - Released Capacity in the ESA:

This section may be revised upon mutual agreement between Otter Tail and Enbridge if MISO or its successor develops Demand Response or other capacity purchase programs.

- b. As part of its annual automatic adjustment filing, Otter Tail shall report the following information:
- the amount of incremental energy purchased by the customer under the LGS Rider,
 - the retail rate paid by the customer, and
 - the retail rate of the energy had System Marginal Energy Pricing been used to determine the retail rate paid by the customer;
- c. The Commission clarifies that it may revise the LGS Rider if the results of its investigation of the Smart Metering Standard under the Federal Energy Policy Act of 2005 in E-999/CI-05-159 or information in Otter Tail rate cases or other relevant proceedings warrant such a change.
2. Within 20 days of the date of this Order, Otter Tail shall make a compliance filing that incorporates the additional language into the ESA.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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